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Utopian Santana Row model is flawed, its developers say

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San Jose's Santana Row may turn out to be a one-hit wonder.

Even as the 42-acre, housing, retail, restaurant and hotel project gains national prominence among city planners, architects and developers as the standard of "place" creation, development company executives in and out of the Bay Area say that anything closely akin to it is unlikely to occur in the same way again.

The project, for all the buzz it has created, so far has proven a financial burden for its developer, Federal Realty Investment Trust of Maryland, and has illustrated the many financial pitfalls of developing large, high-density, mixed-use projects, particularly in tight physical circumstances.

Santana Row's fortunes are of significance far beyond the impact on Federal's stockholders.

Developments like Santana have clearly become what one local real estate executive calls "the utopian model" for nearly every South Bay planning department and city council as the answer to the region's land and housing shortages, traffic congestion and, in many cases, moribund downtowns.

But communities may find themselves regretting the day they embraced complex mixed-use developments if public money is involved, as one Federal executive argued it must be going forward.

"Everyone has fallen in love with (Santana Row) being the validation of the mixed-use project. Now every community from Alviso to Morgan Hill wants its own Santana," says Randol Mackley, principal with Santa Clara's Retail Real Estate Group.

But its beauty must also be viewed through a very "pragmatic" lens, he adds. Federal will earn only 5 percent return on costs for the first $435 million phase — "a yield that is very, very modest for the risk."

Meanwhile, the Urban Land Institute, a Washington, D.C., real estate think tank and professional organization, is using Santana Row as the poster child for a national planning trend of projects that are "place making" — communities and locations that create emotional ties with visitors, and, of course, to shoppers, drawing them back again and again.

The ULI, which also created the most current template for downtown San Jose's redevelopment, hosted a day-and-a-half long conference Sept. 13-14 in San Jose with a session on Santana Row as a capstone. Mr. Mackley attended the conference and Santana Row session, where the speakers included Jan Sweetnam, Federal's chief operating officer for the western region; Nate Fishkin, a former Federal leasing director at Santana Row and now a consultant to the project; and Richard Heapes, a principal with Street-Works of New York and Santana Row's designer.

The conclusion: Federal is embarking on no new Santana Row-like projects.

Mr. Sweetnam told those gathered that, in the future, projects like Santana will only be undertaken with public assistance. Federal had and wanted no public money, he said, because it wanted to maintain complete control of the development. Public money often comes with strings attached, such as requirements for affordable housing.

"If you build a grocery-anchored shopping center and reap 9 percent returns on costs, how much more yield do you want (for a Santana Row)? " he said. ""I would say close to 13 to 14 percent return."

To get that, public dollars must be involved, he said.

Santana's total price tag is expected to be close to $885 million, Mr. Sweetnam says.

Santana Row's financial troubles don't condemn future complex mixed-use developments with multiple property types, but the message from the session was "sobering," says Michael J. Anderson, chief operating officer for Aegis Equity Partners Inc. of Oakland, who also attended the ULI event. Aegis is embarking on its own mixed-use development near an East Bay BART station.

"The final product at Santana Row is incredible, and it sets the standard," he added. "But clearly these projects are very, very complex."

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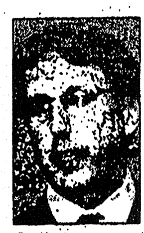
Heapes


Fishkin


Sweetnam


DENNIS G. HENDRICKS

LOSING FAVOR: Santana Row is falling short of expectations by real estate developers as "the utopian model" for mixed-use development.

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